Executive Summary

DEFENSE ACQUISITION PERFORMANCE ASSESSMENT

Outline

- Perceptions
- Deputy Secretary of Defense Task
- Participants
- Assessment Process
- Major Findings
- Integrated Assessment
- Performance Improvements
- Summary

Current Perception

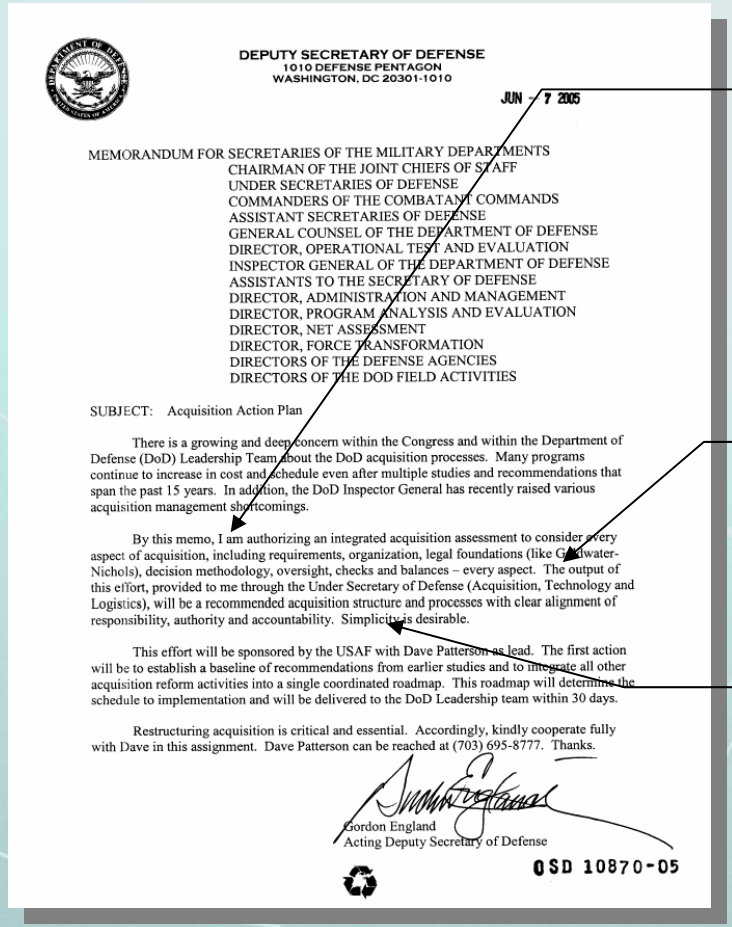
"…the entire acquisition structure within the department of Defense needs to be reexamined and in great detail….there is growing and deep concern about the acquisition process within the Department of Defense and in the Committee." ***Acting Deputy Secretary of Defense Gordon England to the Senate Armed Services Committee, June 7, 2005***

"…The committee is concerned that the current Defense Acquisition Management Framework is not appropriately developing realistic and achievable requirements within integrated architectures for major weapons systems based on current technology, forecasted schedules and available funding…." ***House Conference Report # 109-89 - HR-1815 - Title VIII – Acquisition Policy, Acquisition Management, and Related Matters p. 355***

"The committee is…..concerned that problems with organization structure, shortfalls in acquisition workforce capabilities, and personnel instability continue to undermine the performance of major weapons systems programs…Problems occur because Department of Defense's weapon programs do not capture early on the requisite knowledge that is needed to efficiently and effectively manage program risks…..The committee believes that one answer can be found in the inability of the Department to address the budget and program stability issues. ….Funding and requirements instability continue to drive up costs and delays the eventual fielding of new systems." ***Senate Report 109-069 – S1042 Title VIII-Acquisition Policy, Acquisition Management and Related Matters –p. 341***

The Task

Issued by Acting Deputy Secretary of Defense England, 7 June 2005



DEPUTY SECRETARY OF DEFENSE
1010 DEFENSE PENTAGON
WASHINGTON, DC 20301-1010

JUN - 7 2005

MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS
CHAIRMAN OF THE JOINT CHIEFS OF STAFF
UNDER SECRETARIES OF DEFENSE
COMMANDERS OF THE COMBATANT COMMANDS
ASSISTANT SECRETARIES OF DEFENSE
GENERAL COUNSEL OF THE DEPARTMENT OF DEFENSE
DIRECTOR, OPERATIONAL TEST AND EVALUATION
INSPECTOR GENERAL OF THE DEPARTMENT OF DEFENSE
ASSISTANTS TO THE SECRETARY OF DEFENSE
DIRECTOR, ADMINISTRATION AND MANAGEMENT
DIRECTOR, PROGRAM ANALYSIS AND EVALUATION
DIRECTOR, NET ASSESSMENT
DIRECTOR, FORCE TRANSFORMATION
DIRECTORS OF THE DEFENSE AGENCIES
DIRECTORS OF THE DOD FIELD ACTIVITIES

SUBJECT: Acquisition Action Plan

There is a growing and deep concern within the Congress and within the Department of Defense (DoD) Leadership Team about the DoD acquisition processes. Many programs continue to increase in cost and schedule even after multiple studies and recommendations that span the past 15 years. In addition, the DoD Inspector General has recently raised various acquisition management shortcomings.

By this memo, I am authorizing an integrated acquisition assessment to consider every aspect of acquisition, including requirements, organization, legal foundations (like Goldwater-Nichols), decision methodology, oversight, checks and balances – every aspect. The output of this effort, provided to me through the Under Secretary of Defense (Acquisition, Technology and Logistics), will be a recommended acquisition structure and processes with clear alignment of responsibility, authority and accountability. Simplicity is desirable.

This effort will be sponsored by the USAF with Dave Patterson as lead. The first action will be to establish a baseline of recommendations from earlier studies and to integrate all other acquisition reform activities into a single coordinated roadmap. This roadmap will determine the schedule to implementation and will be delivered to the DoD Leadership team within 30 days.

Restructuring acquisition is critical and essential. Accordingly, kindly cooperate fully with Dave in this assignment. Dave Patterson can be reached at (703) 695-8777. Thanks.

Gordon England
Acting Deputy Secretary of Defense

OSD 10870-05

"... I am authorizing an integrated acquisition assessment to consider every aspect of acquisition, including requirements, organization, legal foundations...decision methodology, oversight, checks and balances — every aspect... "

"The output... will be a recommended acquisition structure and processes with clear alignment of responsibility, authority and accountability."

"Simplicity is desirable…. Restructuring acquisition is critical and essential."

DAPA Membership and Support Teams

The Panel

Lieutenant General Ron Kadish USAF (Ret)
Partner, and VP Aerospace Market Group
Booz, Allen Hamilton
Panel Chairman

Dr. Gerald Abbott
Professor – Industrial College of the Armed Forces, NDU

Mr. Frank Cappuccio
Executive Vice President – Lockheed Martin Corporation

General Richard Hawley, USAF (Ret)
Aerospace Consultant

General Paul Kern, USA (Ret)
The Cohen Group

Mr. Don Kozlowski
Former Vice President, McDonnel Douglas Corporation

Mr. J. David Patterson, Project Director
Ms. K. Eileen Giglio, Deputy Project Director
Col. Alan Boykin, USAF, Staff Director

Advisors

Dr. Francis W. Ahearn
Professor – Industrial College of the Armed Forces, NDU

Dr. Linda S. Brandt
Professor – Industrial College of the Armed Forces, NDU

Ms. Judy A. Stokley
Deputy for Acquisition – Air Armament Center

Mr. Alfred G. Hutchins, Jr.
President – Hutchins & Associates, Inc.

Support Staff

Lt. Col. Rene Bergeron, USAF
Lt. Col. Annette Foster, USAF
Mr. Stephen Hayes, USA
Ms. Maggie Souleyret
Ms. Annette Atoigue

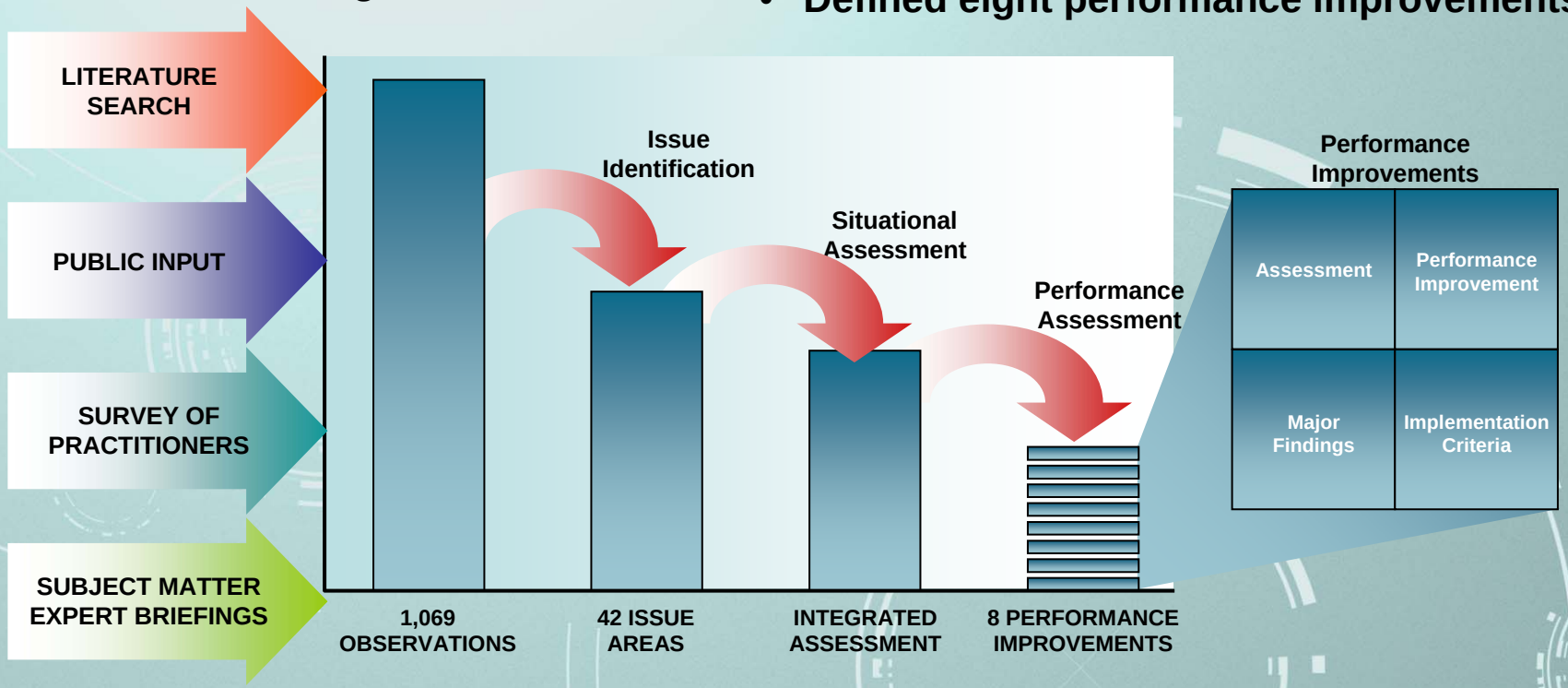
The Task in Context

- **The task assigned to us is complex and difficult**
  - Cost and schedule instability - problems since the Revolutionary War
  - There is no standard, consistent and coherent cost tracking
  - 128 previous studies, including the 1985 Packard Commission
  - Problems persist—why?
- **Our Conclusions:**
  - Problems are deeply imbedded in many DoD management systems
    - Not just acquisition
  - A radical approach to improvements is needed:
    - To make processes better
    - To adapt them to the new security environment
- **Improving performance is not without risk**
  - Historically, the imperative has been to deliver the best performance
  - Current Acquisition System delivered the foundation of our military power
  - The Acquisition System is, and must remain, our strategic advantage

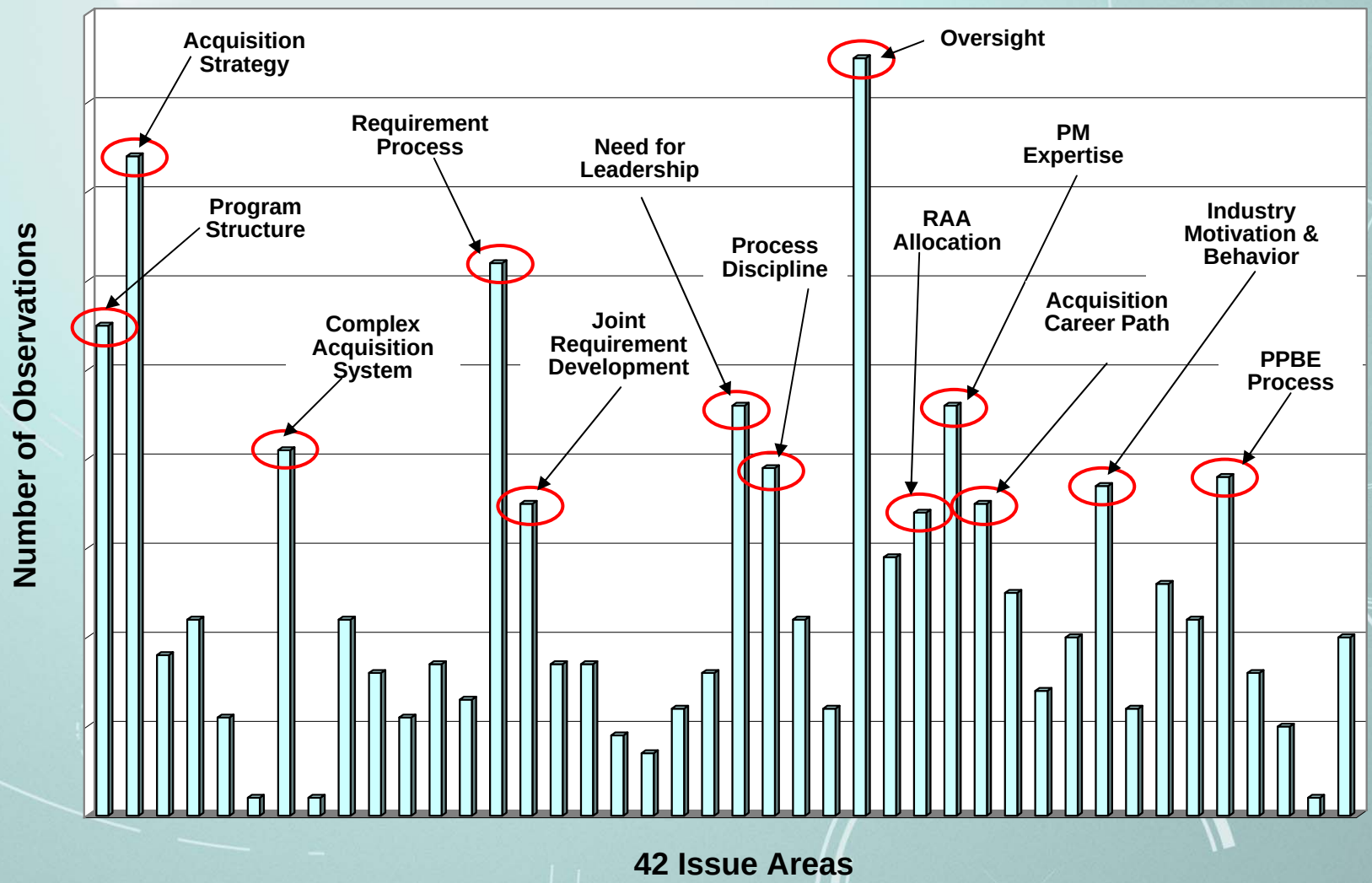
Caveat: The potential for unintended consequences must be considered carefully. U.S. weapon systems are unmatched throughout the world and must remain so.

Performance Assessment Process

- Reviewed over 1,500 documents to establish baseline of previous recommendations.
- Held open meetings and maintained a public web-site to obtain public input.
- Heard from 107 experts, received over 170 hours of briefings.
- Surveyed over 130 government and industry acquisition professionals.
- Developed 1,069 observations.
- Identified 42 areas of interest .
- Created integrated acquisition performance assessment.
- Defined eight performance improvements.



Integrated Look at Key Issues



Major Findings

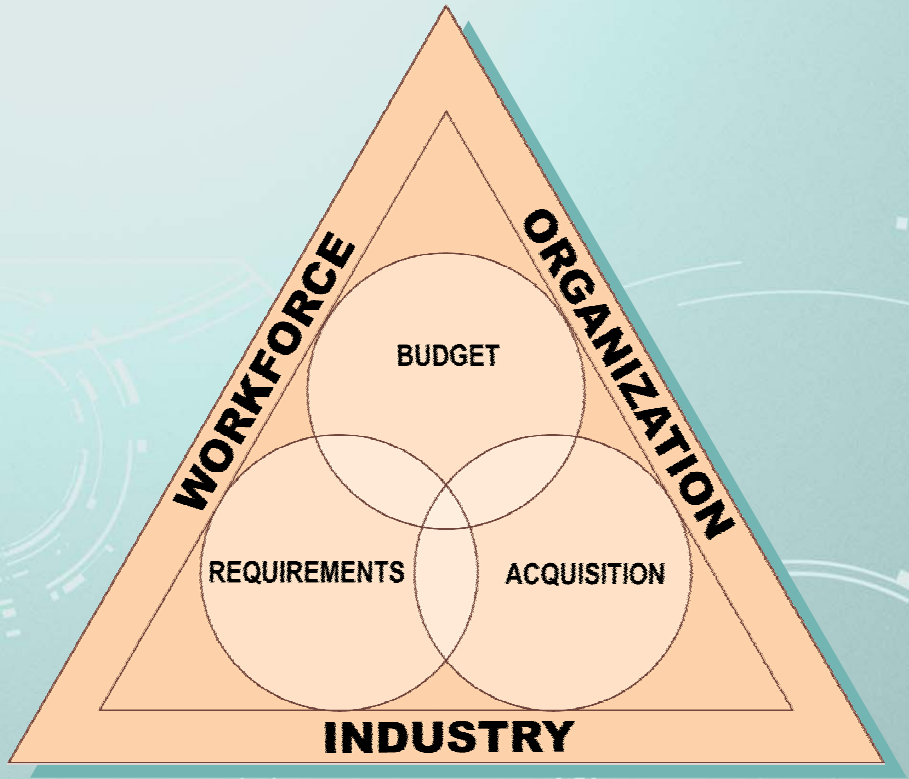
- **Strategic technology exploitation - key US advantage.**
- **The world has changed:**
  - Goldwater-Nichols era (post 1986)
    - 20+ primes,
    - multiple new starts
    - huge annual production runs (585 aircraft, 2,031 vehicles, 24 ships, 32,714 missiles)
  - Today
    - Six primes DoD can't live without
    - Few new starts
    - Low rates of production (188 aircraft, 190 combat vehicles, 8 ships/subs, 5,702 missiles)
    - Plus a need to be agile
- **The acquisition system must deal with external instability, a changing security environment and challenging national issues.**
- **DoD management model based on lack of trust - oversight is preferred to accountability.**
- **Oversight is complex, it is program-focused – not process-focused.**
- **Complex acquisition processes do not promote success–they increase cost and schedule.**
- **DoD elects short term savings and flexibility at the expense of long term cost increases.**

For incremental improvement (applied solely to the acquisition process) to achieve success, DoD processes must be stable – they are not

Our Integrated Assessment

An effective acquisition system requires stability and continuity that can only be achieved through integration of the major elements upon which it depends. For example:

Organization, Workforce, Budget, Requirements, Acquisition, and Industry, as well as Leadership and Congressional Oversight.



In Theory - Cohesive and Stable

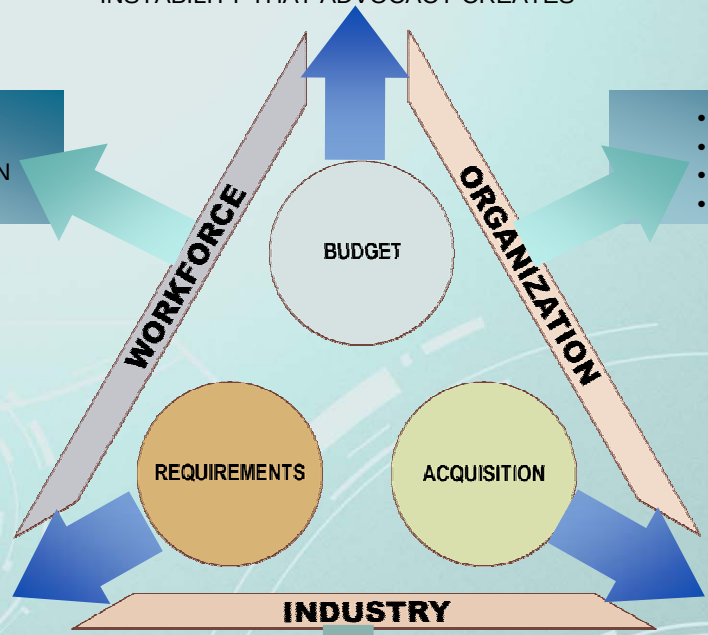
Our Integrated Assessment

There are fundamental disconnects in DoD management systems and Congressional oversight, driven by competing values and objectives that create government-induced instability in our acquisition programs

HOW MUCH AND WHEN TO BUY
- CONTROL, OVERSIGHT AND BALANCE INSTABILITY THAT ADVOCACY CREATES

- STABILITY
- TRAINING
- JOB SATISFACTION
- EXPERIENCE

- COMPLIANCE
- CONSISTENCY
- CONTROL
- OVERSIGHT



WHY AND WHAT TO BUY
- MISSION SUCCESS AT LOWEST COST IN LIFE
- SERVICE ADVOCACY

HOW TO BUY
- BALANCE OF COST, SCHEDULE AND PERFORMANCE
- TECHNOLOGY AVAILABLE vs. PERFORMANCE, COST AND TIME TO NEED

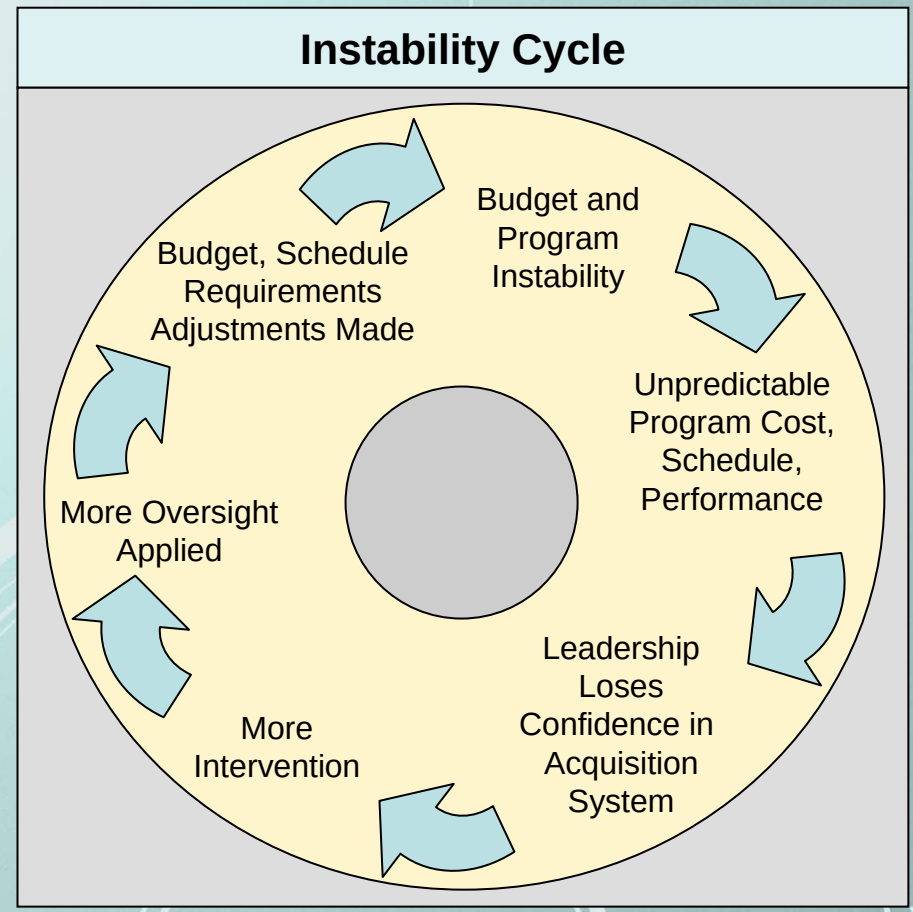
- SURVIVAL
- PREDICTABILITY
- STOCKHOLDER VALUE
- VENDOR BASE VITALITY

In Practice – Disconnected and Unstable (government induced)

Our Integrated Assessment

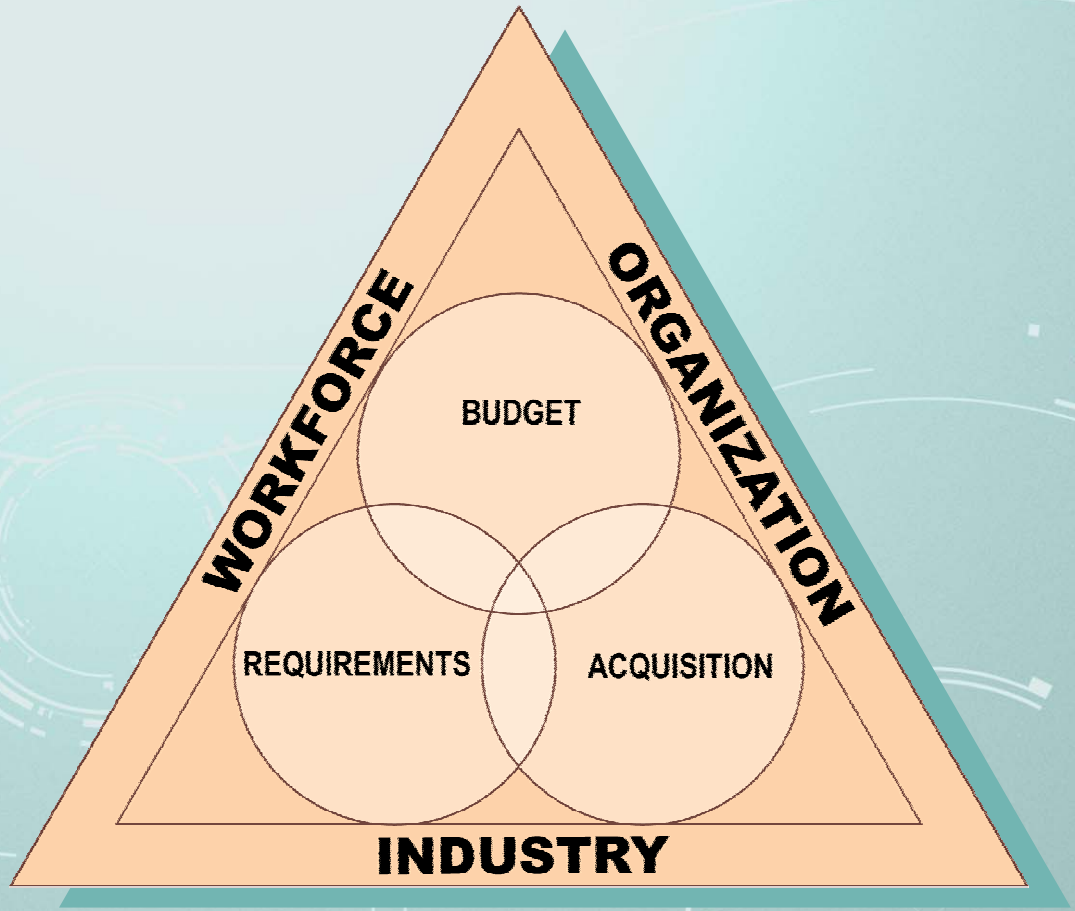
The Government-Induced Cycle of Instability

- **Because our major processes are not well integrated:**
  - We have an unrecognized , government-induced and long-standing cycle of instability
  - which causes unpredictability in costs, schedule, and performance
  - that ultimately results in development programs that span 15-20 years with substantial unit cost increases
  - leading to loss of confidence in DoD acquisition systems.



Performance Improvement

Reducing government-induced instability through transformation of these key elements of the Acquisition system can reduce cost, enhance acquisition performance and accelerate key capabilities by years.



Overall Performance Improvement

Organization

- Realign authority, accountability and responsibility at the appropriate level and streamline the acquisition oversight process.

Workforce

- Rebuild and value the acquisition workforce and incentivize leadership.

Budget

- Transform the budgeting process and establish a distinct Acquisition Stabilization Account to add oversight throughout the process.

Requirement – Process

- Replace JCIDS with COCOM-led requirements procedures in Services, and DoD agencies must compete to provide solutions.

Requirements – Management and Operational Test

- Add an "operationally acceptable" test evaluation category. Give program managers explicit authority to defer requirements

Acquisition – Strategy

- Shift to time-certain development procedures.
- Adopt a risk-based source selection process

Industry

- Overcome the consequences of reduced demand by sharing long range plans and restructuring competitions for new programs with the goal of motivating industry investments in future technology and performance on current programs.

Key Performance Improvements

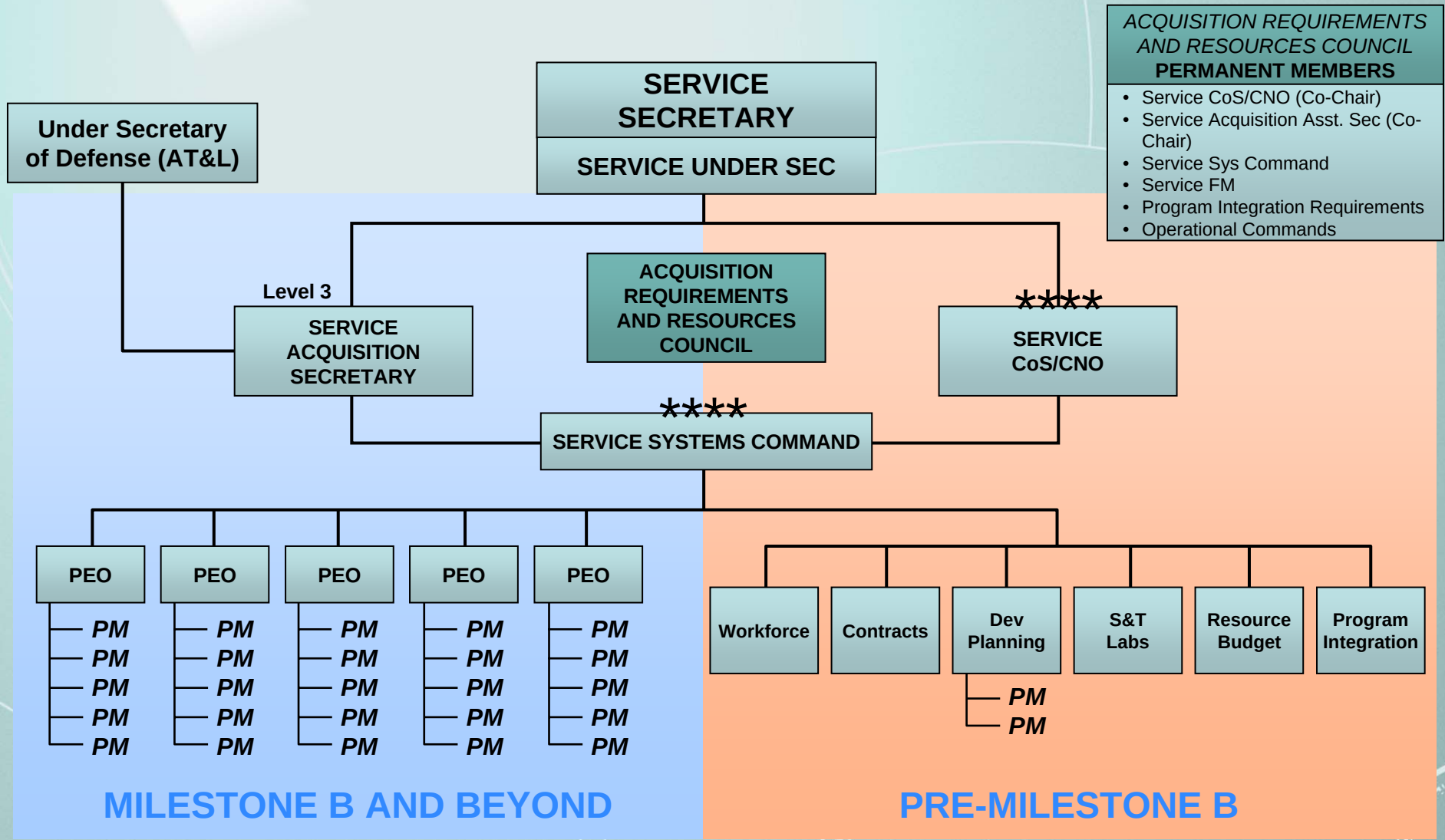
Organization and Workforce

Realign authority, accountability and responsibility at the lowest level to better integrate the Services and Acquisition Executives. Rebuild and value the acquisition workforce and stabilize the leadership. Transform the oversight process:

- **USD(AT&L) - Focus on what to buy, not only on how to buy it**
  - Budget and program a newly created Acquisition Stabilization Account
  - Compete capability needs and chair the Materiel Solution Selection Board
  - Disestablish Integrated Process Teams process and refocus on process oversight and Joint Programs
- **Service Acquisition Executives**
  - Promote to Executive Level Three
  - Establish five year terms (legislation required)
- **Service Level**
  - Establish Four Star Service Systems Commands reporting to both the Service Chiefs / CNO and the Service Acquisition Executive tasked to:
    - Advocate and manage the Acquisition workforce
    - Oversee day-to-day execution and integration of programs (PEO and PM report to the Systems Command Commander)
    - Advocate the technology future of the Service
    - Assume Certification Authority for Acquisition workforce
  - Redefine the Acquisition workforce to include requirements and acquisition related budget personnel with appropriate certification requirements
  - Provide formal and informal mentoring capability to Program Managers to help them execute their programs
  - Direct and Manage preparation of Service material solution proposals
- **White House Liaison Office – Create a pool of pre-cleared non-career senior executives and political appointees to fill executive positions**

Re-integrate the Services Into Acquisition

Realigning Responsibility, Accountability and Authority



Key Performance Improvements

Budget

Enhance the budget process by establishing a distinct Acquisition Stabilization Account for all post Milestone B programs. Add practical Management Reserve at the Service level.

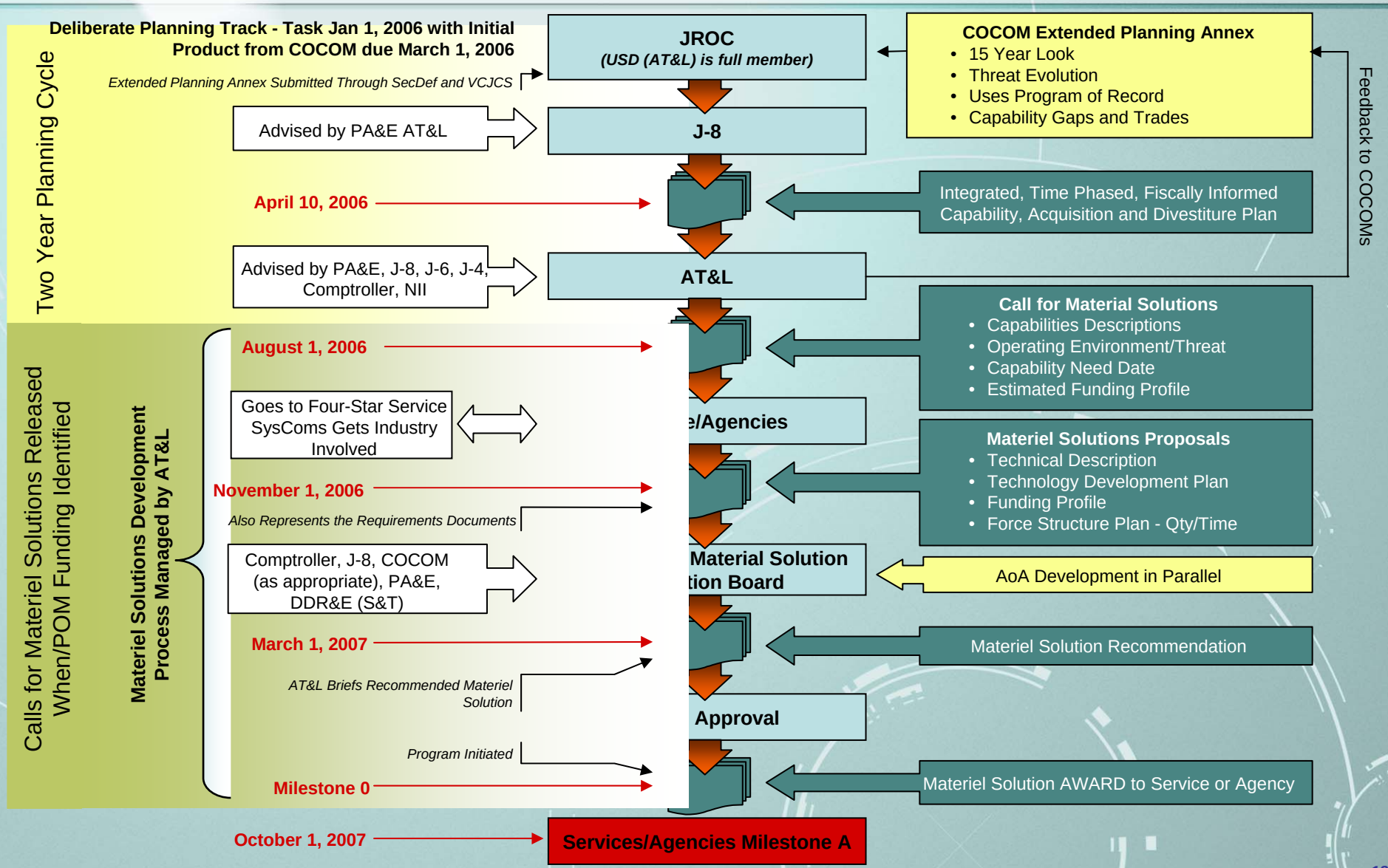
- **Establish a separate Acquisition Stabilization account to mitigate the tendency to stretch programs due to shortfalls in DoD accounts that ultimately increase the total cost of programs.**
- **Create a Management Reserve in this account by holding termination liability at the Service level.**
- **Adjust program estimates to high confidence when programs are base-lined in this account.**

Requirements

Transform the requirements process to adapt to the new security environment by making the COCOMS the driving force for requirements and changing the Operational Test process.

- **Replace JCIDS with a COCOM-led requirements process in which the Services and DoD agencies compete to provide solutions.**
- **Create a departmental time-phased, fiscally informed and prioritized Joint Capability Acquisition and Divestment (JCAD) plan, on a two-year cycle.**
- **Add an "operationally acceptable" test evaluation category.**
- **Size the test and evaluation community appropriately.**
  - Between FY02 and FY05 the T&E workforce grew ~40% while the Program Management workforce declined ~5%, Manufacturing and Quality Engineers declined ~12% and Business and Financial Managers declined ~20%.
- **Reemphasize "technology push" in the requirements process.**

COCOM Driven Requirements Process



Key Performance Improvements

Acquisition

Developmental programs must change from a focus on delivering 100% performance to a focus on delivering useful military capability within a constrained period of time (i.e. within six years from Milestone A). Then upgrade the capability over time, as technologies mature and operational requirements become more clear.

- **Cut traditional development times by shifting to Time Certain Development strategies and requiring delivery of the first unit to operational forces within six years of Milestone A.**
- **Adopt a risk-based source selection process.**
- **Realign the Milestone B decision to occur at Preliminary Design Review.**
- **Require Test and Evaluation Master Plan and Initial Operational Test and Evaluation Plan be completed and signed prior to Milestone B.**
- **Appoint program managers accountable for each baseline with tenure from Milestone B through delivery of the Beyond Low Rate Initial Production report.**

Industry

Share DoD long range plans with industry and restructure competitions for new programs with the goal of motivating industry investments in future technology and performance on current programs

- **Establish a Defense and Industry round table hosted by the Deputy Secretary of Defense by March 1, 2006. The round table will meet regularly to share JCAD plans and align industry and Defense Strategic Planning.**
- **Structure future competitions around negotiated most-probable costs and affordability by February 28, 2006, with the primary source selection criteria being the minimum-risk proposal.**
- **Favor formal competition over make/buy decisions for major subsystems where a Lead System Integrator acquisition strategy is in place. Lead System Integrator acquisition strategies are reducing subcontractor opportunities to compete and affecting the viability of the vendor base.**

Organization

Assessment

- Current process does not meet the standards set down by the Packard Commission in 1985.
- Extensive staff oversight.
- Lengthy lines of communication.
- Adversarial relations that result in excessive and ineffective exercise of derived authority without accountability inhibiting proper execution of our programs.
- Decision-making processes for requirements, budget and acquisition are not integrated in a stable environment.
- Successful implementation requires personal involvement of Service Secretaries and Service Chiefs of Staff and Chief of Naval Operations to shape the initiation of acquisition programs, establish clear expectations for execution and provide continuing support.
- Uncertainty in the organization affecting the decision process and creating instability in program execution.

Major Findings

- Despite thousands of people and stringent oversight processes, there is no evidence that the oversight structure promotes program success.
- Programs advance in the process in spite of oversight process rather than because of it.
- Oversight defined by number -- not the quality -- of reviews.
- Multiple review layers replace clear organizational lines of communication and accountability.
- Unintended consequence of the Packard Commission recommendations that were implemented is that requirements, budget and acquisition are not connected organizationally at any level below the Deputy Secretary of Defense. This induces instability and erodes accountability.

Organization

Performance Improvement

- **More fully implement the intent of the Packard commission by realigning authority, accountability and responsibility at the appropriate level.**
- **Increase the stature of the Under Secretary for Acquisition Technology and Logistics and the Service Acquisition Executives.**
- **Establish a dedicated four-star command for acquisition at the service level.**
- **Streamline the acquisition oversight process of the Department of Defense to achieve greater stability in the process.**

Implementation Criteria

- **By October 1, 2006, more fully implement the original intent of the Packard Commission:**
  - Elevate the Service Acquisition Executives and the Service Under Secretaries from Executive Level Four to Executive Level Three.
  - Establish a Four-Star level command within each service, as program execution agent for the service Chief of Staff and Chief of Naval Operations prior to Milestone B and for the Under Secretary of Defense for Acquisition, Technology and Logistics and Service Acquisition Executives after Milestone B. Command responsibilities are to:
    - integrate the decision responsibilities for budget, requirements and acquisition.
    - advocate for the technological future of each Service --advocate and manage the acquisition workforce.
    - provide day-to-day program execution and oversight.
  - Assign the Under Secretary of Defense for Acquisition, Technology and Logistics ownership of the “acquisition stabilization” account and execution responsibilities within the new joint capability acquisition and divestiture system to include selection of material solutions from among those proposed by the Services and Agencies.
  - Disestablish acquisition Integrated Product Teams in the Office of the Secretary of Defense.
  - Replace the current oversight process with a small staff within AT&L to support joint programs.

Workforce

Assessment

- A professional workforce with subject matter expertise is required for successful programs.
- The acquisition workforce is too narrowly defined.
- Requirements and budget personnel not included.
- Program managers not properly recognized and valued.
- Concerted effort since 1990 to reduce the government acquisition workforce.
- Government increasingly reliant on contract work-force.
- Political and Senior Executive Service appointments are not filled in a timely way.
- Instability in the decision making process is the result.

Major Findings

- One unintended consequence of removing the Service chiefs and the Chief of Naval Operations from acquisition is that the Services now neglect stewardship responsibilities for the acquisition workforce and the Defense Acquisition Workforce Improvement act does not make up the difference.
- Key personnel and skills (requirements and budget) are not considered part of the acquisition workforce and are not included in the Defense Acquisition Workforce Improvement Act.
- Training and certification standards are not enforced.
- Implementation of the Defense Acquisition Workforce Improvement Act has been spotty across Department of Defense and has led to the illusion that Acquisition Community is managing the workforce.
- Experience and expertise in all functional areas has been de-valued and this contributed to a "Conspiracy of Hope" in which we embark on programs that are not executable -- especially true for the program management cadre.
- Failure to fill senior political and career senior acquisition positions has led to gaps in leadership and management continuity and direction.

Workforce

Performance Improvement

- Rebuild and value the acquisition workforce.
- Stabilize the leadership.
- Go back to basics.
- Make acquisition a core competency in the military Services, comparable to the combat arms.

Implementation Criteria

By October 1, 2006

Stand-up the new Four-Star Service Systems Command commanders using the following criteria:

- Assign responsibility for, and direct the newly established Four-star System Command Commander to be responsible for enhancing the acquisition workforce training, education, experience and expertise through training.
- Provide a mentoring capability for program managers to help them execute quality programs.
- Issue authorities for USD(AT&L) to designate the Four-Star Systems Command Commanders as the certification authority for the acquisition workforce by July 1, 2006.
- Establish Service Acquisition Assistant Secretaries as five-year, fixed-term, Presidentially appointed and Senate-confirmed positions by July 1, 2006.
- Define the acquisition workforce to include budget and requirements personnel by October 1, 2006.
- Establish and impose training, education, certification and qualification standards for each member of the acquisition workforce by October 1, 2006.

Budget

Assessment

- Funding is a key factor in program unpredictability which has a major impact on acquisition process.
- Congressional inclination to take money from specific programs for no programmatic reasons.
- Services have propensity to take procurement investment account money to pay Operations and Maintenance bills.
- Variability between annual budget predictions and ultimate budget authority makes program planning difficult.
- Absence of program management reserve impedes flexibility in fiscal management.
- Government acquisition executives lack financial tools available to CEOs and CFOs in the private sector.
- Successful RDT&E and procurement programs require a stable budget and planning horizon.
- Current budget shortfalls are frequently resolved by manipulating programs, thereby inducing instability and long term cost growth.
- Stability in the budget system is non-existent.

Major Findings

- Unrealistic inflation estimates and other planning factors cause further instability.
- The Department has no management reserve to deal with short-term budget shortfalls.
- Optimistic estimates for MILPERS, O&M and RDT&E, force annual reprogramming and budget exercises within the Department.
- The RDT&E and procurement accounts are the only real discretionary source of funding to cover the shortfalls.
- Budget changes force program restructures that drive long-term cost and schedule growth and open the door to requirements creep.

Budget

Performance Improvement

- Transform the Planning, Programming, Budgeting, and Execution process to promote budget and programming stability.
- Program to high confidence estimates for all accounts.
- Establish a distinct modernization account that is budgeted and programmed by the Under Secretary of Defense for Acquisition, Technology and Logistics for all post Milestone B programs.
- Add practical management reserve at the Service level to provide a more stable environment.

Implementation Criteria

By June 30, 2006:

- Complete a CONOPS for a distinct modernization account.

By the FY '07 budget submission:

- Establish a distinct modernization account.

By FY '07 budget submissions and subsequent budgets:

- Create management reserve by holding expiring termination liability at the Service level (held by the SAE).

By the submission of the FY '08 POM:

- Adjust all accounts to an 80/20 confidence level.

Requirements – Process

Assessment

- The current requirements process does not meet the needs of the present day security environment for a successful acquisition process.
- Requirements should be derived in a timely way from capability shortfalls identified by Combatant Commanders.
- Requirements should be informed by realistic technical assessments and fiscal guidance.
- Requirements take too long to develop, are derived from Joint Staff and Service views of the war-fighter's needs, and often rest on immature technologies and overly optimistic estimates of future resource availability.
- Lengthy and insufficiently advised requirement development processes result in either developing and delivering capabilities which do not meet war-fighter needs or in delivering required capabilities late.
- Unpredictable requirements create instability into the system.

Major Findings

- Combatant Commanders do not play a leading role in defining capability shortfalls or areas of excess capability.
- Senior Military Leadership is not adequately involved in controlling the requirements process.
- There is no time-phased, fiscally informed capabilities development and divestiture plan to guide and prioritize the development and satisfaction of weapon system requirements.
- Neither the Joint Capabilities Integration Development System (JCIDS) nor the Service requirements development processes are well informed about the maturity of technologies on which they rest or of future resource constraints.
- The JCIDS process, like its predecessors, is slow and complex.

Requirements – Process

Performance Improvement

- **Direct the COCOMs to lead the requirements process in which the Services and DoD agencies compete to provide solutions as a process to replace JCIDS.**
- **Direct COCOMs to develop long-range operational plans with AT&L, to be integrated by the JROC into an acquisition and divestiture plan.**
- **Require the use of the acquisition and divestiture plan to guide the development of a fiscally and time constrained materiel solution solicitation against which the Services and other agencies of DOD propose solutions.**

NOTE: Apply Materiel Solution Process to requirements emerging after March 1, 2006 only. Do Not use this process to revalidate pre-existing requirements.

Implementation Criteria

By March 1, 2006:

- **Prepare a 15 year assessment of capability gaps and redundancies for all OPLANS by the COCOMs, with Service participation, and submit to the SECDEF.**

By April 10, 2006:

- **Prepare an extended plan by the Joint Staff, with support from OSD/PA&E and AT&L, to integrate the Combatant Commanders into a departmental, time-phased, fiscally informed and prioritized, capability acquisition and divestment plan. This part of the process repeats on a two-year cycle, while the actions below are a continuous execution process.**

By August 1, 2006:

- **Prepare an initial set of "Calls for Material Solutions" for release by AT&L with support from PA&E, J-8, J-4, J-6, NII and the Comptroller.**

By March 1, 2006:

- **Direct Services /Agencies to submit "Materiel Solution Proposals" to AT&L.**

By March 1, 2007:

- **Evaluate Material Solution Proposals by AT&L and select recommended solution/s for approval by JROC, award to Services/Agencies.**
- **Appoint a qualified/certified requirements professional as program manager with an acquisition professional as deputy program manager by the executing service.**

Requirements – Management and Operational Test

Assessment

- A successful acquisition program requires stable requirements.
- The requirements process is not stable enough to provide the baseline for successful execution, and the existing Initial Operational Testing and Evaluation process is creating additional instability by introducing new requirements through the test process.
- Additional instability of requirements is introduced by policy mandates and changes in acquisition rules.

Major Findings

- The length of the program development cycle provides many opportunities for requirements growth resulting in requirements instability.
- Requirements management was the third most frequently cited issue out of more than 1,000 observations.
- We observed many instances of formally declared ineffective programs by DOT&E fielded in combat situations (e.g., JSTARS, JDAM, Predator, F-15E).
- Operational Test and Evaluation often defines requirements during the test event.
- Instructions, policies and mandates are applied to programs that are baselined without consideration for cost or schedule impact, such as LINK-16 and JTTRS.

Requirements – Management and Operational Test

Performance Improvement

- Give program managers explicit authority to defer requirements in order to meet time-certain standards after Milestone B.
- Add "operationally acceptable" as a new test evaluation category. Test performance may not fully meet test criteria established by DOT&E, however the COCOM has determined that the system as tested provides an operationally useful military capability.
- Testing in an environment, other than that defined in the TEMP/IOT&E Plan, requires Joint Requirements Oversight Council approval.
- Require remediation of any deficiencies resulting from the changed environment to be corrected in future upgrades.

Implementation Criteria

By March 1, 2006:

- Modify applicable regulations concerning program manager authority to defer requirements.
- Modify applicable regulations to require JROC approval to conduct IOT&E in an environment other than that defined in the TEMP/IOT&E Plan and include a third category "Operationally Acceptable" into IOT&E.
- Revise JROC procedures to ensure remediation in future upgrades of deficiencies that result from testing in a changed environment (other than that in the TEMP/IOT&E Plan).

Acquisition – Strategy

Assessment

- Current acquisition strategies encourage a "Conspiracy of Hope" that introduces instability at the very beginning of acquisition programs.
- The "Conspiracy of Hope" is reinforced by the cost-plus environment in acquisition strategies to encourage industry to be overly optimistic in their bids, resulting in little or no financial risk to the bidder.
- Successful acquisition programs need stability that results from a successful acquisition strategy.

Major Findings

- The U.S. Government starts fewer "new" programs, resulting in a "must win" environment for industry.
- Defense industry consolidation has produced fewer bidders. This makes it harder for the U.S. Government to encourage healthy competition.
- Cost becomes a dominant factor in source selections. Many awards go to the lowest bidder -- even in best value determinations, especially when cost is weighted as the lowest criteria.
- CSIS sees the current culture as one focused more on cost than on value. For example, the Department prefers to spend $1 billion on a program which pays 4% margins to the contractor rather than spending $500 million and 20% margins.

Acquisition – Strategy

Performance Improvement

- Adopt a risk-based source selection process. For development contracts, proposal costs should be replaced by an industry/government agreement that includes a high confidence cost estimate.
- Source Selection Authorities should base their decisions on technical and management risk as well as an ability to achieve cost and incentives to meet schedule.
- At contract award, "agreed to cost" should be set at the contract target cost and industry should deliver at that cost.

Implementation Criteria

By February 28, 2006:

- Issue AT&L policy letter codifying this recommendation.

By March 31, 2006:

- Create industry and Government implementation plan.

By April 30, 2006:

- Publish announcement of proposed changes to the Federal Acquisition Regulations (FAR) in the Federal Register.

Acquisition – Time-Certain Development

Assessment

- Successful acquisition programs deliver timely products.
- The current culture in the U.S. government, particularly DoD, is to accept nothing less than the 100% solution due to the operational mandate.
- The Acquisition Community consistently underestimates how much it costs to get the 100% solution, i.e. the “Conspiracy of Hope”.
- Products take “tens of years” to deliver and cost far more than estimated at the initiation of the process, adding to instability.

Major Findings

- DoD 5000 sets Milestone B in advance of System Requirements Review before technology and system design are sufficiently mature to establish high confidence cost, schedule and performance thresholds.
- Immaturity leads to technical problems, which begins a long cycle of instability: budget and requirement changes, costly delays, and repeated re-baselining.
- Repeated re-baselining masks cost increases and lengthens schedules.
- Increased costs are aggregated in Selected Acquisition Reports and erode confidence in the acquisition system.
- No coherent standardized tracking system and accountability is lost.
- When lengthy development nears completion, changes in threat definition and test scenarios cause systems to fail Independent Operational Test and Evaluation (IOT&E). To accommodate the changes, the rework adds cost and time.
- Vulnerability to changes increases as schedule lengthens. New mandates, changes in acquisition rules, and new policies are applied to programs already baselined, which drives costs up and lengthens schedules.

Acquisition – Time-Certain Development

Performance Improvement

- Shift to "time-certain" development.
- Developmental programs must change focus from 100% performance to a useful military capability within 6 years of Milestone A. Then upgrade capability over time as technologies mature and operational requirements become more clear.
- Establish program baselines at Milestone B 6-year timeline. Technology maturity and system design must be sufficiently mature to set high confidence cost, schedule, and performance thresholds.
- The 6 year timeframe empowers program managers with accountability and authority to manage programs.
- Unity of effort is critical across DoD once the baseline is set. Stability in the process must be sustained.

Implementation Criteria

By March 31, 2006:

- Amend DoDD 5000 to endorse time-certain development as an acquisition strategy standard and require Joint Requirements Oversight Council revalidation for any program that fails to meet the 6 year time constraint.
- Redefine Milestone B, decision to occur at Preliminary Design Review when designs are mature.
- Require that the Test and Evaluation Master Plan and the Initial Operational Test and Evaluation Plan be completed and signed before the program is baselined at Milestone B – Include the PM as a signatory on both test plans.
- Require that program managers be accountable for baseline through completion of Low Rate Initial Production Report.
- Assign Four-Star Acquisition Commanders to facilitate process improvements.

Industry

Assessment

- **Consolidation of the industrial base caused by unstable defense demand has reduced the benefits of competition.**
- **Competition for ideas and solutions diminished.**
- **Lack of industrial competition has introduced organizational conflict of interest issues and made every defense contract a "must win" situation for prime contractors.**
- **Industrial base is fragile.**
- **Industry relearns very expensive lessons with every program.**
- **Lack of competition will require re-building infrastructure tailored to each program.**
- **Technology security and export controls affect the health of the defense industry in a global market environment.**
- **Successful acquisition requires a stable environment of trust and confidence between government and a responsive and healthy industrial base.**

Major Findings

- **Goldwater-Nichols acquisition reforms were designed in a different world environment with over 20 prime contractors, multiple new starts and huge annual production runs (585 aircraft, 2,031 vehicles, 24 ships, 32,714 missiles).**
- **Today there are 5 primes that DoD cannot live without, few new starts, low rates of production (188 aircraft, 190 combat vehicles, 8 ships/subs, 5,702 missiles) and a need to respond quickly to operation needs.**
- **Reduced demand has had three consequences:**
  - Consolidation of the defense industrial base, vertical integration of a limited number of suppliers, erosion of the supplier base at the second and lower tiers, all of which has reduced the benefits of competition and increased instability.
  - Every DoD contract is a "must win" for industry, which leads to optimistic cost, schedule and performance proposals (the "Conspiracy of Hope") and programs that ultimately incur cost and schedule overruns, which lead to a loss of confidence.
  - Industrial investment in research and development and capital equipment has declined from 23% of income to 12% because of the unstable environment.
- **The behaviors and relationships that work well in a broadly competitive environment are not well suited to the current monopoly/monopsony situation.**
- **DoD has not adequately addressed the globalization of the defense industry.**

Industry

Performance Improvement

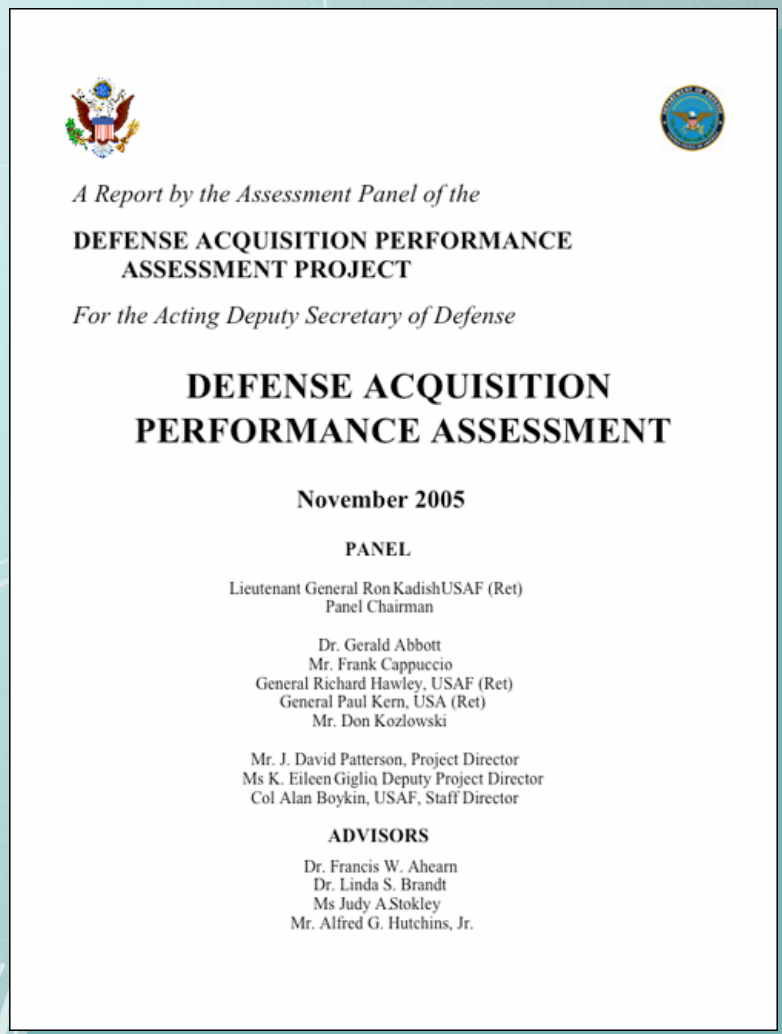
- Overcome consequences of reduced demand.
- Share long range plans and restructuring competitions for new programs.
- Motivate industry to make investments in future technology and to improve performance on current programs.

Improvement Criteria

- Establish a Defense and Industry round table to be hosted by the Deputy Secretary of Defense by March 1, 2006. The round table will meet frequently and share JCADS plans to align industry and Defense strategic planning.
- Negotiate the structure of future competitions around most-probable costs and affordability by February 28, 2006, with the primary source selection criteria being the minimum risk proposal.
- Enforce formal competitive scenarios over make/buy decisions for major subsystems for Lead System Integrator acquisition strategies. Present trends are reducing subcontractor opportunities to compete and impacting the viability of the vendor base.

Summary

- **The Defense Acquisition Performance Assessment Panel conducted an extensive review of all aspects of the larger acquisition system.**
- **Significant recommendations for performance improvement were developed in five areas:**
  - Organization / Workforce
  - Budget
  - Requirements
  - Acquisition
  - Industry
- **Performance improvements deliver a simple acquisition structure with clear lines of accountability and enhance system stability and predictability.**
- **The relationship with Congress is critical to successful implementation – a new partnership is needed.**



A Report by the Assessment Panel of the

DEFENSE ACQUISITION PERFORMANCE ASSESSMENT PROJECT

For the Acting Deputy Secretary of Defense

DEFENSE ACQUISITION PERFORMANCE ASSESSMENT

November 2005

PANEL

Lieutenant General Ron Kadish USAF (Ret)
Panel Chairman

Dr. Gerald Abbott
Mr. Frank Cappuccio
General Richard Hawley, USAF (Ret)
General Paul Kern, USA (Ret)
Mr. Don Kozlowski

Mr. J. David Patterson, Project Director
Ms K. Eileen Giglia, Deputy Project Director
Col Alan Boykin, USAF, Staff Director

ADVISORS

Dr. Francis W. Ahearn
Dr. Linda S. Brandt
Ms Judy A Stokley
Mr. Alfred G. Hutchins, Jr.